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China's Economists: Soundings on Reform

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Summary

China's economists to an unprecedented extent are using Western economic concepts to analyze their country's performance and develop reform policies. In conversations with visiting US officials and Embassy officers, Chinese economic advisers and bureaucrats frequently use concepts from Western economic theory to illustrate shortcomings in their planned economy, demonstrate increased understanding of market tools, and express a willingness to broaden market forces. In our view, the extent to which Western economic thought is eroding Marxism in the minds of many Chinese economists means that reform policies will be limited less by Marxist criteria than by economic performance and that Westerners will have wider scope to influence those policies. Before market mechanisms are implemented widely, their worth will be tested in selected cities and enterprises. Market experiments that raise efficiency and boost output probably will be broadened--others will be modified or discarded.

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Market Thoughts in a Marxist Land

Beijing's ambitious reform program not only has transformed China's economic system, but has changed the way Chinese economists think. Instead of relying solely on Marxist concepts, they increasingly are using Western economic theory to analyze their country's policies. This transformation has been illustrated many times in recent conversations between visiting US officials and Chinese economic advisers and bureaucrats--and also has been reflected in reporting from Embassy Beijing this fall. For instance, Jin Jiandong, the director of the comprehensive planning department of China's central bank, reported that policymakers in the bank hope eventually to control China's money supply using the same tools--open market operations, discount rate adjustments, and changes in reserve requirements--that the US Federal Reserve Board uses. Jin recognizes that the absence of a capital market in China, the unresponsiveness of bank lending to interest rate changes, and difficulty getting bank managers to accept responsibility for their decisions are major stumblingblocks to using Western-style monetary tools to guide the economy, but he believes these barriers can be reduced eventually.

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The influence of Western economic theory is evident in the way Chinese economists view other issues as well:

The Market in a Socialist Economy

Yang Qixian, a commissioner with the State Commission to Restructure the Economic System--Premier Zhao Ziyang's think tank for economic reform policies--told US officials in May that many economic advisers believe China should establish commodity, capital, and labor markets. Yang believes policies that allowed administrative units to cut up the market into small segments introduced gross inefficiencies in China's economy. He illustrated this by describing the case of an efficient popsicle factory in the eastern Beijing city district. Because its sales revenue went to the eastern district, officials in Beijing's western city district prohibited sales by the factory in the western district, and promoted the establishment of a popsicle factory within their own district. Yang wants to remove artificial barriers to commerce and establish a broad commodity market--which he calls a "unified competitive market system"--within which enterprises can compete.

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On the basis of Embassy and Chinese press reports, we believe that a majority of China's economists think that price reform is necessary to boost industrial efficiency. Gui Shiyong, the director of the Institute for Planned Economy in China's State Planning Commission believes that Beijing should gradually eliminate price controls over key products such as coal. Gui favors increasing the amount of coal produced outside the state plan--which is sold at market prices--while slowly raising the in-plan price of coal. He believes that larger, outside-of-plan production will drive the market price down. In his view, the combination of incremental hikes in the in-plan price, and increased outside-of-plan production, eventually will bring the state price and market price together--at which time Beijing can eliminate price controls on coal altogether.

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Gui believes similar policies can eventually be implemented for other industrial products.¹

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Economic Levers

Although Beijing continues to use extensive administrative measures to control economic activity, many Chinese officials favor increased use of market incentives. Jiandong, for example, explained that the central bank in August raised the rate that the specialized banks, such as the Agricultural Bank of China and the Industrial and Commercial Bank of China, must pay on loans from the central bank to encourage them to raise funds locally--rather than relying on handouts from the central bank. The chairman of the Shanghai Investment and Trust Company in a conversation with a US official implied that a flexible exchange rate system--although a long way off for China--was a desirable way to adjust the value of China's currency in line with changing international conditions. He also touted the rudimentary foreign currency market in Shanghai through which joint ventures with a surplus of foreign exchange can sell their excess to other joint ventures at rates above China's official rate. Zhu Yixin, the chief economist for China's State Administration of Exchange Control, admitted that Beijing also allows some domestic enterprises that export goods to sell their retained foreign exchange at slightly above the official rate--to encourage firms to export more.

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Reform of Enterprise Ownership

Market concepts have made deep inroads with a few Chinese economists. Some of the most progressive thinkers, for instance, have proposed that the government cede ownership of state enterprises to workers and managers--radically transforming China's economic structure. Li Yining, an economics professor at Beijing University, recently told a US Embassy officer that the best way to improve China's industrial efficiency would be to move toward a market economy. Li apparently believes that over the next 15 years Beijing should transform China's state-owned enterprises into firms run by boards of directors whose composition would be determined by stock ownership. Shares in what are now state enterprises would be sold to workers and managers with the government retaining a controlling--though not necessarily a majority--interest. The economic planning apparatus correspondingly would be dismantled, and enterprises would compete in a market environment.

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¹ The price of in-plan coal has not been raised since 1981. About 50 percent of coal mined in 1985 was sold at market prices.

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Ideology and Economic Reform

Chinese theoreticians also are attempting to develop an ideological justification for the new market-oriented policies already implemented. In September a research fellow with the Shanghai Institute for International Studies told US officials that although it was not politically possible to discard Marxism, he believed that Marxism could be modified to reflect China's reform policies. He went on to explain that in his research he was trying to develop a way of explaining why capital--in addition to labor--imparted value in the production process. In this way, he could justify to party stalwarts why foreign investors should be allowed to earn profits from their investments in China. A commentator in China's official party newspaper boldly stated in November that Marxist philosophy was becoming "more and more outdated" as a guiding theory in the face of technological advance in the capitalist countries and advocated that it be modernized. []

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How Widespread Is the New Thought?

On the basis of Embassy reporting and conversations between US and Chinese officials, we believe that increased familiarity with Western economic concepts is not limited to one group of scholars or bureaucrats. Increased economic sophistication is evident from conversations with economists in China's central ministries--including the Ministry of Finance, the State Planning Commission, the State Commission to Restructure the Economic System, the State Economic Commission, and the central bank--as well as various research institutes and universities. Limited evidence, however, suggests that the more progressive ideas--such as doing away with central planning and setting up firms based on stock ownership--receive greatest support from younger economists. Li Yining, for instance, told Embassy Beijing that younger economists strongly support his views on ownership reform. And in a recent interview with a West German magazine, General Secretary Hu Yaobang seemed to confirm that the locus of the most far-reaching ideas on reform was with younger economists. According to Hu, China has "an infinitely small number of young people who are of the opinion that reform should be carried through radically, root and branch, and that we should proceed completely following the Western model." []

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What Limits Do Chinese Economists Face?

Public statements by senior officials early last summer made clear that Beijing will not allow discussion of the applicability of Western economic concepts to China's reform program to be circumscribed by conservative opponents--who stifled discussion in the past by labeling reform theorists "capitalists." The document approved by China's party plenum in September states that the party should "encourage and support all bold explorative efforts and free debates that are based on scientific research." As a research fellow in the Shanghai Institute of International Studies explained to US officials, Chinese economists believe they have been given the go-ahead by Beijing to explore previously forbidden areas in Western economics. The diminution of the role of ideology in economic debate also was evident in discussions of an enterprise

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bankruptcy law by China's National People's Congress during the past five months. According to Chinese media, opponents of the law argued that other economic reforms should be implemented first--not that bankruptcy is inconsistent with Marxism. []

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Beijing also is sanctioning a less ideological approach to economics by allowing Chinese students to study abroad and by letting Chinese professors teach Western economic concepts. A handful of Chinese students have learned economics in the West--according to the Chinese press about 150 Chinese scholars currently are studying economics in the United States. Most Chinese economists, however, have learned Western economic theory in China. A junior economist with the Ministry of Finance, for instance, told a US Government official that he studied international financial markets at an economics institute in Shanghai, and that he wrote his thesis on the desirability of China selling foreign-currency-denominated bonds overseas. Li Yining told a US Embassy official that he teaches his ideas about ownership reform to his students at Beijing University. Wang Jue, a senior economist at the Chinese Communist Party's Central Party School, said that he teaches market concepts to high-level party officials attending the school. Among other things, Wang reportedly presents the idea that the central plan should be sharply curtailed and that prices, wages, and rents should be market determined. []

In our view, however, better understanding and more open discussion of Western economic concepts do not mean that those ideas will be incorporated in China's reform program. Many Chinese economists view market forces as chaotic and unreliable and believe that mandatory planning must play the predominant role in the economy. Even the most progressive economists think that some type of central planning is necessary and believe that the state should directly run important sectors of the economy--such as banking, transportation, and communications. []

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In our view, before Western-style market mechanisms can be implemented broadly in China, they must prove their worth in selected cities and enterprises. Last summer Chinese media widely publicized limited experiments with enterprise bankruptcy, interbank lending, and bond markets in several cities. Chinese economists have cautioned US officials that these experiments are still being studied and that in some cases they might not be extended. Beijing has stated publicly that it will proceed cautiously with price reform--implying that experiments with price reform in the coal or steel industry must yield good results before they will be tried in other industries. Moreover, we believe that the gains from market-oriented policies may be reduced because of opposition from party officials whose power is reduced by economic decentralization, lack of infrastructure and shortage of skilled managers and technocrats, and the piecemeal nature of the reforms and frequent lack of coordination in implementing policies. []

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Although Beijing is sanctioning discussion of new economic ideas, Hu Yaobang recently warned that it is not possible to adopt completely "the Western model." In addition, the Communist Party's role as the ultimate political authority in China is still sacrosanct--economists are not free to criticize the political system. They also realize they are under intense pressure to show that their policies work. We believe that, if reforms go awry, a conservative backlash could develop against the policies--and the

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reform economists--and that the progressive economists themselves might lose faith in Western economic theories. []

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Implications for China's Reform Program

We believe that the increased familiarity of China's economists with Western economic concepts and Beijing's apparent decision to allow an open discussion of these ideas have important implications for reform in China and China's relations with the West. First, the increased reliance on Western economic concepts means that the limits on reform in China increasingly will be set by performance, rather than ideological, criteria. Policies that would have been considered heretical in the past--such as completely dismantling the planning apparatus--are being considered by some Chinese economists. Although Beijing may never implement such radical policies, it will implement selected market-oriented experiments that will be judged on the basis of their impact on economic efficiency. In addition, we believe that Beijing's ability to manage its economy during the transition from a centrally planned system to one that has more market elements will improve as Chinese economists become more familiar with Western economic concepts and modern macroeconomic management techniques.

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Second, we believe Western economists--particularly US economists--now have an unprecedented opportunity to influence Chinese thinking. Chinese economists not only are now more comfortable discussing economic concepts with Westerners, but they are actively soliciting advice from US economists. China's central bank, for instance, recently invited a delegation of US financial experts--including the chairman of the New York Stock Exchange--to Beijing to discuss how to run securities markets. In private discussions with US officials, Chinese economists frequently ask them to critique China's reform program. []

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SUBJECT: CHINA'S ECONOMISTS: SOUNDINGS ON REFORM

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